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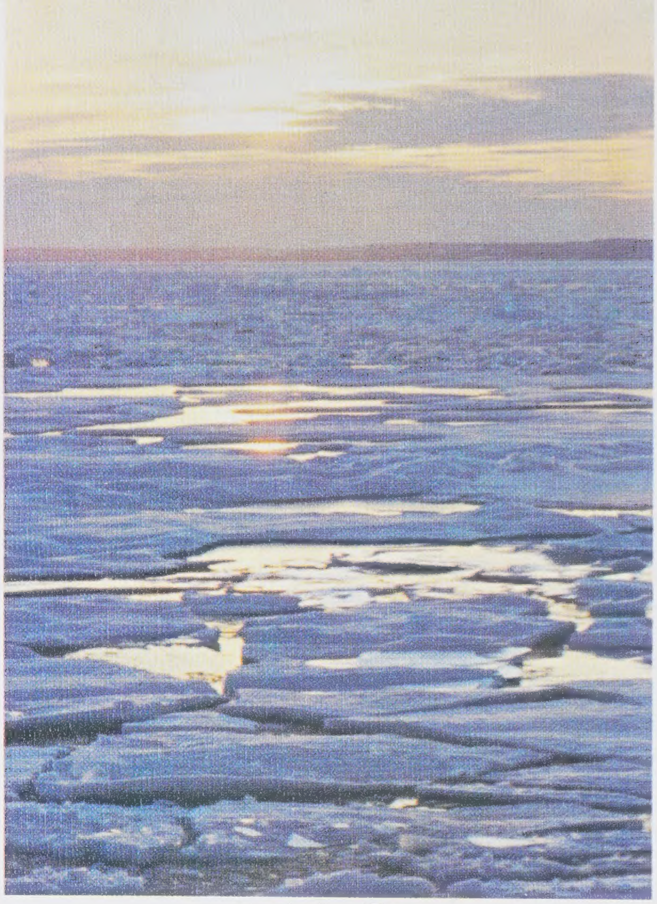
CANADIAN INDUSTRIAL GAS & OIL LTD.

ANNUAL REPORT

1969



Arctic Ice Floes.

INDEX

Head Office

640 Eighth Avenue S.W., Calgary 2, Alberta

Directors

Edward G. Battle	Calgary, Alberta
Edmund C. Bovey	Toronto, Ontario
Donald R. Brandt	Edmonton, Alberta
C. Spencer Clark	Seattle, Washington
Robert B. Craddock	Tuckers' Town, Bermuda
J. Ian Crookston	Toronto, Ontario
Edward A. Galvin	Calgary, Alberta
Richey B. Love	Calgary, Alberta
William I. M. Turner, Jr.	Montreal, Quebec
John R. Yarnell	Montreal, Quebec

Officers

Edward A. Galvin	President
Edmund C. Bovey	Chairman of the Executive Committee
Edward G. Battle	Executive Vice President
Donald D. Barkwell	Vice President, Production
Stewart R. Dyckman	Vice President, Finance
George T. Hefter	Vice President, LP Gas
Wilfrid A. Loucks	Vice President, Exploration
Laurence A. Sills	Secretary
A. Kenneth Davies	Treasurer
Russell G. Rennie	Assistant Secretary

Registrars and Transfer Agents

Common and Preferred Shares:

NATIONAL TRUST COMPANY, LIMITED
Calgary, Montreal, Toronto, Vancouver, Winnipeg

THE BANK OF NEW YORK, NEW YORK

Auditors

RIDDELL, STEAD & CO., Calgary, Alberta

Exchange Listing

Common and Preferred Shares:

TORONTO STOCK EXCHANGE, Toronto, Ontario

Comparative Summary

YEAR ENDED DECEMBER 31

	1969	1968	1967	1966	1965
Revenue	$33,828,000	$29,616,000	$26,266,000	$23,727,000	$21,532,000
Earnings — before non-cash charges	$14,513,000	$14,379,000	$11,961,000	$10,267,000	$10,084,000
Net earnings	$ 8,238,000	$ 8,196,000	$ 6,359,000	$ 6,416,000	$ 6,188,000
Earnings per Common share —before non-cash charges	71¢	71¢	60¢	52¢	51¢
Net earnings per Common share	41¢	41¢	32¢	32¢	31¢
Production — Net					
Crude Oil and Gas Liquids					
Annual (Barrels)	2,993,100	3,037,100	2,871,800	2,684,800	2,539,500
Daily (Barrels)	8,200	8,298	7,868	7,356	6,958
Natural Gas					
Annual (MMCF)	32,213	29,952	26,878	25,909	23,209
Daily (MMCF)	88.3	81.8	73.6	71.0	63.6
Sulphur					
Annual (Long Tons)	10,810	10,390	6,780	4,620	4,879
Industrial Gas Sales					
Annual (MMCF)	40,169	37,647	35,727	33,424	29,563
Daily (MMCF)	110.1	102.9	97.9	91.6	81.0
Oil Gathering and Transmission					
Deliveries					
Annual (Barrels)	45,188,000	44,679,000	43,320,000	41,186,000	37,319,000
Daily (Barrels)	123,800	122,100	118,700	112,800	102,200
Liquefied Gas Sales (Gallons)	44,300,000	39,300,000	37,600,000	35,610,000	24,790,000
Reserves*					
Crude Oil and Gas Liquids (Barrels)	49,746,000	46,312,000	43,826,000	41,914,000	33,350,000
Natural Gas (MMCF)	597,000	595,800	590,000	524,800	554,200
Sulphur (Long Tons)	246,900	257,700	—	—	—
Acreage* Gross	18,152,342	10,994,464	8,411,515	8,827,548	7,126,752
Net	12,727,674	5,846,223	2,802,253	3,074,010	1,702,441
Miles of Pipeline System	1,109	1,091	1,010	949	895
Propane Distribution Plants	37	36	37	37	33

*Acreage and reserves of subsidiary companies acquired in 1969 have been omitted prior to that year. Sulphur and propane and butane reserves omitted for the years prior to 1968.

Arctic Exploration Camp.

Directors' Report TO THE SHAREHOLDERS

The Directors' Report for 1969, together with the audited consolidated financial statements for the year ended December 31, 1969 are presented herewith.

The year was marked by accelerated expansion, the most outstanding factors of which were:

- the acquisition of 95% of the outstanding shares of Trans-Prairie Pipelines, Ltd.
- the acquisition of a 10% interest in Elf Oil Exploration and Production Canada Ltd.

which are more fully described later in this report.

FINANCIAL

The Trans-Prairie Pipelines, Ltd. share acquisition has been treated for accounting purposes as a pooling of interests, and accordingly this subsidiary has been included in the consolidated financial statements of the Company for the year 1969 and in the comparative figures for 1968. On this basis earnings per common share for each of the years 1968 and 1969 were 41¢ although earnings per share originally reported for 1968 were 38¢ based on the earnings of CIGOL alone and its then outstanding shares (adjusted to reflect the 3 for 1 stock split in 1969). This reflects the effect of the acquisition of 95% of Trans-Prairie.

Revenue for 1969 was $33,828,000 compared to $29,616,000 in 1968. Included in 1969 was $2,196,000 of revenue from a production sub-lease purchased by Trans-Prairie at the end of 1968, which was largely offset in 1969 by the depletion of the full cost of the sub-lease. Cash earnings benefited from the sub-lease income but were reduced by $2,110,000 of income taxes payable by Trans-Prairie for the year 1969. Of this, only $1,225,000 was a charge to 1969 operations since provision of $885,000 as deferred tax on prior years' income had already been made.

PRODUCTION

Crude oil and gas liquids production for 1969, after deduction of all royalties, averaged 8,200 barrels per day compared to the 1968 daily average of 8,298 barrels. Crude oil production averaged 7,278 barrels per day, condensate averaged 487 barrels per day, and propane and butane averaged 435 barrels per day. The decrease was due primarily to the natural decline in crude oil production from the Company's Saskatchewan properties and the reduced allowable in the Joarcam field of Alberta. Pursuant to a change in the Alberta proration formula, which became fully operative on May 1, 1969, relatively higher rates of production are now permitted from high reserve fields and lower rates from low reserve fields. The Company estimates that while the application of the new formula will affect the production from individual fields such as Joarcam, the overall effect will not in the foreseeable future result in any significant increase or decrease in the Company's total production from presently producing properties.

Natural gas production, after deduction of all royalties, increased 8% to an average of 88.3 MMCF per day in 1969 from 81.8 MMCF per day in 1968. This increase resulted from both larger sales to export markets and increased deliveries to the Company's industrial gas system. Sulphur production from gas processing plants increased to 10,810 long tons in 1969 from 10,390 long tons in 1968.

Left:
Pumping Oil Well.

Right:
Challenging Drilling Rig Move.

CRUDE OIL & GAS LIQUIDS PRODUCTION Net Barrels

	1969		1968	
Alberta				
Pembina	263,600		256,800	
Joarcam	217,000		300,700	
Swan Hills	111,200		106,300	
Simonette	70,100		60,500	
Redwater	64,700		58,000	
Leduc-Woodbend	59,800		71,700	
Inverness	56,600		75,100	
Joffre	55,700		53,300	
Zama	46,100		46,500	
West Drumheller	45,000		56,800	
Other Fields	257,400		269,000	
Royalty Interests	26,300		34,300	
Condensate	177,800		158,500	
Propane and Butane	158,900	1,610,200	63,700	1,611,200
Saskatchewan				
Weyburn	216,400		241,700	
West Kingsford	79,000		100,500	
Hazlet	49,200		55,900	
Queensdale	40,000		39,100	
Other Fields	92,200		102,900	
Royalty Interests	307,700	784,500	331,000	871,100
British Columbia				
Peejay	545,400		496,900	
Other Fields	28,400		27,200	
Royalty Interests	17,000	590,800	17,900	542,000
Other Areas		7,600		12,800
Total		2,993,100		3,037,100

NATURAL GAS PRODUCTION

Net Millions of Cubic Feet

	1969		1968	
Alberta				
Fort Saskatchewan	3,656		3,971	
Bittern Lake	3,365		3,153	
Westlock	3,310		2,414	
Bindloss	2,855		2,108	
Ghost Pine	2,341		1,723	
Nevis	1,535		1,702	
Alexander	1,300		1,478	
St. Albert	1,258		1,478	
Crossfield	1,161		1,063	
Pouce Coupe	1,080		1,119	
Other Fields	5,061		4,146	
Royalty Interests	679	27,601	683	25,038
British Columbia				
Jedney, Buddles, Laprise	3,884		3,995	
Other Fields	309	4,193	326	4,321
Other Areas		419		593
Total		32,213		29,952

RESERVES

The Company's net crude oil, gas liquids, and natural gas reserves increased during the year. Crude oil and gas liquids reserves increased to 49,746,000 barrels from 46,312,000 barrels primarily as a result of acquisitions made during the year. Natural gas reserves increased to 597,000 MMCF from 595,800 MMCF.

INDUSTRIAL GAS OPERATIONS

Total sales of natural gas to consumers served by the Company's industrial gas system increased 7% to a daily average of 110.1 MMCF in 1969 from 102.9 MMCF in 1968. The larger sales resulted primarily from the additional requirements of existing customers. Gas purchased from third parties during 1969 averaged 59.6 MMCF per day, while gas wells in which the Company owns an interest produced 38.2 MMCF per day for the Company, and 15.1 MMCF per day for its royalty owners. Shrinkage accounted for 2.8 MMCF per day.

Two subsidiaries of Trans-Prairie Pipelines, Ltd. engaged in utility gas operations reported average sales of natural gas during the year of 10.2 MMCF per day, a 79% increase over the 1968 sales. The total number of customers increased 10% during 1969 to 6,065.

Industrial Gas System - Compressor Station.

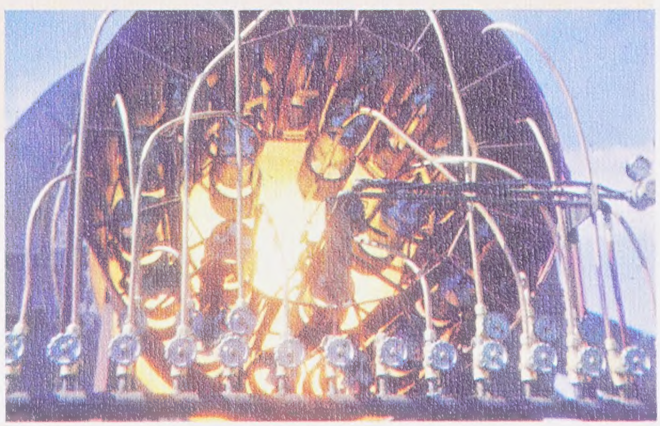
OIL GATHERING AND TRANSMISSION

Crude oil and product deliveries averaged 123,800 barrels per day compared to 122,100 barrels per day in 1968. Of these deliveries, over 95% were made by the Company's subsidiary, Trans-Prairie Pipelines, Ltd.

LIQUEFIED GAS

Butane and propane sales totalled 44,300,000 gallons in 1969 compared to 39,300,000 gallons in 1968. A major portion of the Company's business results from sales to customers in wheat growing areas. Uncertainties in regard to wheat marketing have curtailed new business in these areas but increased sales to other customers resulted in a substantial growth during the year. This division has continued to concentrate on diversification with emphasis on industrial and commercial applications, particularly butane sales to customers operating gravel drying and asphalt plants for summer use.

Gravel Dryer on Hot Mix Asphalt Plant converted from oil to butane fired.



Butane burners on a Gravel Dryer.

ACQUISITIONS

During the year under review the Company continued its policy of expansion through acquisition in addition to exploration.

Trans-Prairie Pipelines, Ltd.

Oil Pipeline River Crossing.

In May, 1969 the Company acquired 530,000 shares of Trans-Prairie Pipelines, Ltd. in exchange for 874,500 common shares of the Company issued from treasury, on the ratio of one common share of Trans-Prairie for 1.65 common shares of the Company. Subsequently, the Company made an exchange offer on the same basis to other shareholders of Trans-Prairie Pipelines, Ltd. The offer expired on September 8, 1969. At December 31, 1969 the Company held 1,678,140 common shares of Trans-Prairie Pipelines, Ltd., equal to 95% of the outstanding capital of that company.

Trans-Prairie owns and operates crude oil pipelines and gathering systems totalling 590 miles in the Provinces of British Columbia, Manitoba and Saskatchewan. These pipeline systems serve oil fields which, as of December 31, 1969, had proven and probable recoverable reserves of 513,617,000 and 255,696,000 barrels respectively. It also has oil and gas production of its own. In the year ended December 31, 1969 this subsidiary company had earnings of $3,942,000 before non-cash charges and net earnings of $1,704,000.

Trans-Prairie owns 99.8% of Columbia Natural Gas Limited which operates a 112 mile gas distribution system serving nine communities in the East Kootenay area of southeastern British Columbia.

Gas Processing Plant.

Elf Oil Exploration and Production Canada Ltd.

The Company has entered into an agreement by which it has acquired a 10% interest in Elf Oil Exploration and Production Canada Ltd. As consideration the Company has agreed to incur approximately $23,000,000 of drilling and exploration expenses on lands owned and controlled by Elf, which owns interests in approximately 89,300,000 gross acres (22,600,000 net acres), all in Canada. Elf has already spent substantial sums in preliminary exploration work and over the next five years has scheduled a drilling and exploration program of about $65,000,000. The approximate $23,000,000 expenditure of the Company will be used toward financing this program. Elf Canada has moved drilling equipment to its first Arctic Islands location, which will be drilled to a projected depth of 14,000 feet on a large feature in the southeast part of the McKenzie King Island.

Elf, formerly Petropar Canada Limited and a wholly-owned Canadian subsidiary of Entreprise de Recherches et d'Activites Petrolieres, acquired a major and selective acreage position in the Canadian Arctic in the early 1960's. The lands owned by Elf, in the opinion of the management of the Company, have some of the most favourable oil and gas prospects in the Arctic Archipelago. In addition to the large Arctic Island holdings, Elf has a major position in Hudson Bay, Eastern Canadian offshore, and of particular significance in the Beaufort Sea and Mackenzie Delta.

In addition to the above, several other acquisitions were made during the year, including

- the exchange of 160,000 common shares of the Company for all of the outstanding shares of Ranvik Oils Limited and Manitou Exploration Company Limited, the most important assets of which are interests in the Bindloss gas and Medicine River oil fields of Alberta;
- the purchase for cash from Apache Oil Corporation of a 50% working interest in 10,400 acres of producing and non-producing properties in the Hamilton Lake area of eastern Alberta;
- the purchase for cash from Bayview Oil & Gas Ltd. of its producing properties in the Redwater and Pembina fields of Alberta and the Ingoldsby field in Saskatchewan.

EXPLORATION

Arctic Seismic - Pattern Shot.

The Company has completed another active year of exploration and development and, in order to more aggressively pursue future programs, has expanded its Exploration Division.

During the year it has

- participated in the drilling of 90 wells, of which 19 were oil and 20 gas;
- increased its Petroleum and Natural Gas Rights to 18,152,342 gross acres (12,727,674 net) at December 31, 1969 compared to 10,994,464 gross acres (5,846,223 net) at the end of 1968;
- conducted, on its own and in co-operation with others, 2,050 miles of seismic shooting;
- joined in several mineral exploration projects.

Arctic Supply Vessels.

Arctic Islands

The Drake Point K-67A well on Melville Island, which was drilled to a total depth of 10,671 feet, is located on lands in which Prairie Oil Royalties Company, Ltd., (a 74% owned subsidiary) and British Columbia Oil Lands Ltd., (35% owned by Prairie) each has an interest. The well encountered gas in several separate zones. Drillstem tests indicated a maximum gas flow of 13 MMCF per day with a small recovery of free oil. The lower portion of the hole has been abandoned as being uneconomic and production casing remains in the hole covering the two gas zones located at approximate depths of 3700 and 4650 feet. A second well has been announced by Panarctic on Melville Island, approximately 20 miles southwest of the Drake Point well on a farmin of lands from another company. Both Prairie Oil Royalties and British Columbia Oil Lands will participate in the drilling of this well.

The Company acquired during the year, by filing, a 100% interest in 1,623,521 acres in Viscount Melville Sound, and purchased a 100% interest in a block of 1,307,000 acres on Banks Island. An additional 1,000,000 acres of offshore holdings in the Arctic, primarily in the Sverdrup Basin, acquired in 1968, are under a farmout-option whereby another company may earn a 50% interest by drilling.

Beaufort Sea

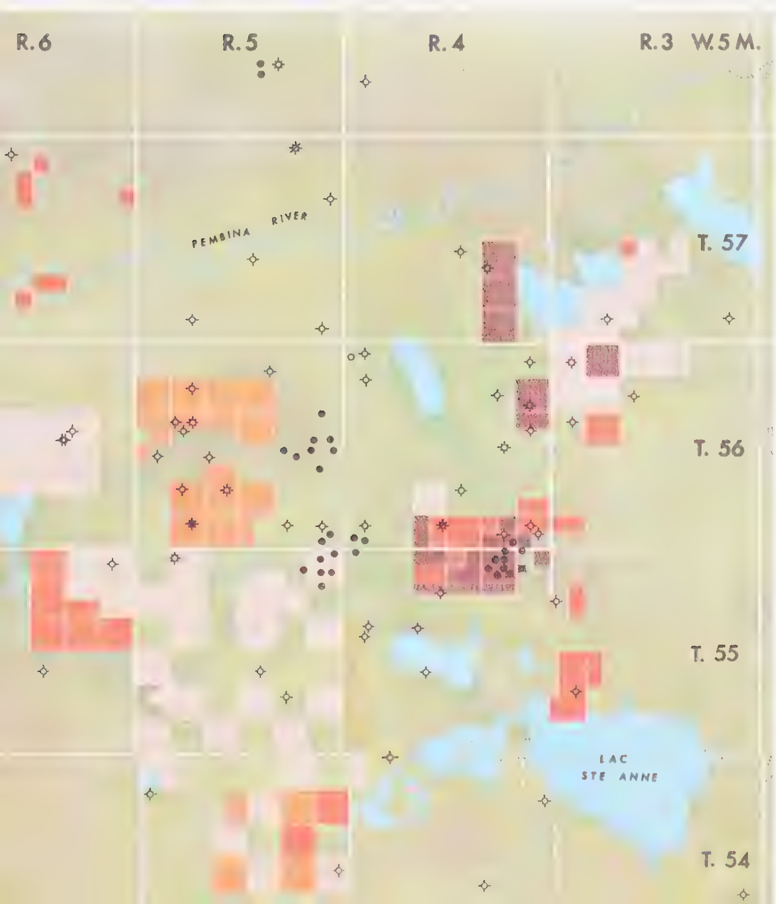
The Company holds a 100% interest in 327,000 acres, and 4% in 85,000 acres in the Beaufort Sea. Preliminary interpretation of reconnaissance seismic data reveals interesting structural features. No offshore drilling has been conducted in this area.

Hudson Bay

The Aquitaine group commenced the drilling of a well in Hudson Bay during the late summer of 1969 but was forced to suspend operations because of weather and ice conditions in late fall. It is expected drilling will be recommenced in the summer of 1970. The Company owns a 100% interest in 1,405,000 acres in Hudson Bay.

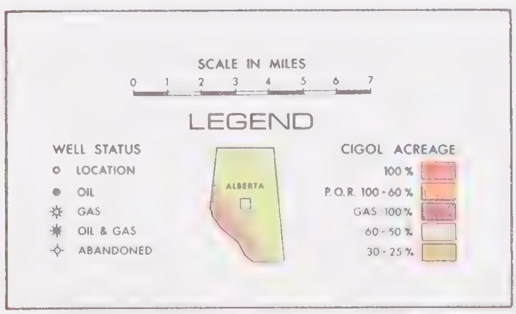
North Sea

The Company participated to the extent of 20% in the drilling in Block 38/25 of an exploratory test which was abandoned. Additional seismic work was carried out during the year on the Company's holdings, and it is anticipated that further exploratory drilling will be done during the coming year. A decision is pending on an application made with partners to the Ministry of Power for two additional licences.



Glenevis-Cherhill

Exploration and development activity continued in the Glenevis-Cherhill area, resulting in a dual zone gas/oil discovery on Prairie Oil Royalties acreage, and a gas discovery on the Company's holdings. Additional seismic work was done and it is expected that further exploratory drilling will be carried out during the coming year.



Adriatic Sea

The Company obtained a 10% interest in one, a 30% interest in two and 100% in five other exploratory permits in the Italian portion of the Adriatic Sea. Seismic work will probably be carried out over most of this acreage during the year.

East Coast Offshore

DRILLING SUMMARY

During the year the Company and its subsidiaries participated in the drilling of 90 wells, the results of which are shown in the following table.

		Oil		Gas		Abandoned		1969 Total		1968 Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	Exploratory	3	.9	8	3.3	23	12.7	34	16.9	16	8.2
	Development	10	2.1	9	1.4	6	1.3	25	4.8	33	7.9
B.C.	Exploratory	—	—	2	.4	10	2.2	12	2.6	5	.5
	Development	4	.4	—	—	1	.1	5	.5	6	3.2
Saskatchewan	Exploratory	2	1.1	—	—	9	7.2	11	8.3	13	5.0
	Development	—	—	—	—	—	—	—	—	3	.6
Ontario	Exploratory	—	—	—	—	1	1.0	1	1.0	—	—
	Development	—	—	1	1.0	—	—	1	1.0	—	—
North Sea	Exploratory	—	—	—	—	1	.2	1	.2	1	.2
	TOTALS	19	4.5	20	6.1	51	24.7	90	35.3	77	25.6

ACREAGE HOLDINGS AS AT DECEMBER 31, 1969

Area	Leases		Reservations, Permits & Licences		Grand Total		Mineral	Gross Royalty
	Gross	Net	Gross	Net	Gross	Net	Net Acres	Acres
Canadian Arctic	—	—	5,322,900	3,851,393	5,322,900	3,851,393	—	—
Labrador - Offshore	—	—	3,043,878	3,043,878	3,043,878	3,043,878	—	—
Hudson Bay	—	—	1,404,688	1,404,688	1,404,688	1,404,688	—	—
Yukon	—	—	381,646	306,548	381,646	306,548	852	—
Northwest Territories	—	—	1,828,006	1,409,770	1,828,006	1,409,770	—	18,021
Beaufort Sea	—	—	327,145	327,145	327,145	327,145	—	—
North Sea	—	—	648,415	218,955	648,415	218,955	—	—
Adriatic	—	—	148,569	110,589	148,569	110,589	—	—
Wales	—	—	—	—	—	—	1,040	—
Quebec	—	—	214,000	214,000	214,000	214,000	1,520	—
Ontario	2,987	2,987	9,636	9,636	12,623	12,623	3,000	—
Manitoba	367,029	102,754	—	—	367,029	102,754	99,870	1,280
Saskatchewan	486,856	109,143	236,506	208,429	723,362	317,572	291,480	801,276
Alberta	1,967,872	656,479	521,553	464,653	2,489,425	1,121,132	—	305,415
British Columbia	990,438	190,873	250,218	95,754	1,240,656	286,627	1,808	—
TOTAL	3,815,182	1,062,236	14,337,160	11,665,438	18,152,342	12,727,674	399,570	1,125,992

Pending leases in Alaska of 1,180,160 gross acres (520,160 net) are not included in the above.

The above figures do not include Elf Oil lands listed as follows, in which the Company has a 10% interest.

Arctic Islands	16,603,890	Hudson Bay	62,945,723
Mackenzie Delta	4,172,269	British Columbia	597,879
Beaufort Sea	1,514,353	Alberta	287,575
Newfoundland (East Coast Offshore)	2,859,619	Saskatchewan	384,165

TOTAL Elf Acreage — 89,365,473 gross — 22,619,381 net.

ARCTIC OCEAN
BEAUFORT SEA
ALASKA
APPROX. LIMIT OF POLAR PACK
BANKS ISLAND
CIGOL 100 % PRIORITY FILINGS IN ALASKA
CIGOL 100 % SUBJECT TO KING RESOURCES TO EARN 50 %
CIGOL 100 % PAN ARCTIC MAY EARN 85 %
CIGOL 4 %
P.O.R. 3.15 % B.C. OIL LANDS 3.15 %) FARMED OUT TO PAN ARCTIC
P.O.R. .9 % B.C. OIL LANDS .9 %) FARMED OUT TO PAN ARCTIC
TRANS PRAIRIE PIPELINES LTD. 31.25 % PRIORITY FILINGS
ELF OIL EXPLORATION & PRODUCTION CANADA LTD.


ELLESMERE ISLAND
GREENLAND
DEVON ISLAND
BAFFIN ISLAND
CANADIAN
ARCTIC ISLANDS
ACREAGE HOLDINGS
SCALE IN MILES
64 0 64 128 192 256 320

Staking Claims in the Yukon.

MINERAL EXPLORATION

YUKON TERRITORY
COPPER PROSPECTS
SCALE IN MILES
20 0 20 40 60 80

CIGOL INTEREST
OTHER COMPANIES

Anglesey

At Parys Mountain on the Isle of Anglesey, North Wales, drilling continued on the "North Zone", with two drills working during the whole of 1969. Drilling indicated further extensions to the area of mineralization, and, although of low grade, continued exploration of this project appears justified. The work is proceeding.

Dawson Range, Yukon Territory

The Company, together with Atlas Explorations Ltd. and Dynasty Explorations Ltd. of Vancouver, has acquired interests in three claim groups totalling 294 claims east of the area currently being drilled by Casino Silver Mines Ltd. Casino has reported inferred reserves in excess of a billion tons grading 0.30% copper and 0.04% molybdenum sulphide, and states that up to $4,000,000 will be spent on the property in 1970. This discovery has stimulated what promises to be the most active play in the Yukon, extending the length of the Dawson Range, covering a belt of similar geology.

SUBDIVISION OF COMMON SHARES

At the Annual General Meeting of the Company held on April 8, 1969 a resolution was adopted (a) authorizing the subdivision of the issued and unissued common shares of the Company on a three for one basis, and (b) increasing the authorized common share capital to 50,000,000 shares without nominal or par value. Several communications have been sent to shareholders at their registered addresses, requesting that their old share certificates be forwarded to the Company's Registrar and Transfer Agent, to be exchanged for new certificates for three times the number of shares held at April 8, 1969. The sub-divided shares commenced trading on the Toronto Stock Exchange on April 16, 1969, and trading of the old shares was discontinued.

SALE OF SHARES

Prairie Oil Royalties Company, Ltd.

During 1969 the Company sold 68,600 shares of Prairie Oil Royalties Company, Ltd. reducing its ownership in this subsidiary from 78% to 74%. The profit arising from the excess of the proceeds of the sale of these shares over their book value amounted to $2,317,000 and was credited to Retained Earnings.

Okalta Oils, Limited

In December, 1969 the Company sold to Marwood Petroleum Ltd. of Calgary the 3,298,459 common shares of Okalta Oils, Limited owned by the Company and representing approximately 47% of the outstanding capital of Okalta. The sale of these shares resulted in an extraordinary profit of $417,000 representing the excess of the proceeds of sale over the value at which these shares were carried on the books of the Company.

DIRECTORS

There have been several changes of directors during the past year. Mr. Peter N. Thomson did not stand for re-election to the Board at the Annual General Meeting in April, 1969. Mr. Herbert C. Andreae and Mr. Arthur Mackwell resigned from the Board in July, 1969. The contributions made to the Company by these capable directors are gratefully acknowledged.

Mr. Edward G. Battle was elected to the Board at the Annual General Meeting, and Mr. William I. M. Turner, Jr. and Mr. Donald R. Brandt were appointed directors to fill the vacancies created by the resignations.

SUMMARY

The Company has a strong income base which serves to support expanded exploration undertakings. As a result, its land holdings have been materially increased (see page 11) in the principal oil and gas prospect areas of Canada and in other parts of the world as well. The acquisition of a 10% interest in Elf Oil Exploration and Production Canada Ltd. has provided an unusual opportunity to participate in a major Canadian oil and gas exploration program. The importance of this undertaking has been recently accentuated by the close proximity of certain large land holdings of Elf to the Imperial Oil Limited Atkinson Point #H-25 discovery well on the Arctic coastal plain of the Northwest Territories. It is the opinion of some that this well may lead to an oil discovery of major significance.

On Behalf of the Board

President

Calgary 2, Alberta.

March 25, 1970.

Riddell, Stead & Co.
CHARTERED ACCOUNTANTS 407 Eighth Avenue S.W. Calgary 2, Alberta

AUDITORS' REPORT

To the Shareholders
Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31,1969 and the consolidated statements of earnings, retained earnings, paid-in surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31,1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead & Co.

February 12,1970.

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1969

	1969	1968 (Note 1)
SALES, SERVICE AND OTHER OPERATING REVENUE	$ 33,827,572	$ 29,616,272
COSTS AND EXPENSES		
Gas and other merchandise purchased	7,017,144	5,777,169
Selling, operating and administrative expenses	8,662,861	7,759,107
Interest	1,346,668	1,584,648
Depletion (Note 2)	4,978,453	2,506,901
Depreciation	2,768,608	2,670,089
Minority interest	187,451	191,545
	24,961,185	20,489,459
EARNINGS BEFORE INCOME TAXES	8,866,387	9,126,813
Income taxes of subsidiaries	1,224,767	1,025,303
EARNINGS BEFORE EXTRAORDINARY ITEM	7,641,620	8,101,510
Gain on disposal of assets	596,571	94,517
NET EARNINGS (Note 8)	$ 8,238,191	$ 8,196,027

CONSOLIDATED BALANCE SHEET

as at December 31, 1969

Assets

	1969	1968 (Note 1)
CURRENT ASSETS		
Cash and short-term deposits	$ 4,024,122	$ 3,203,351
Accounts and notes receivable	5,315,717	5,509,732
Inventories of merchandise and supplies at lower of cost or replacement cost	1,067,996	1,049,106
Prepaid expenses and deposits	425,381	420,046
	10,833,216	10,182,235
INVESTMENTS		
Fifty percent owned companies		
Shares at cost plus equity in undistributed earnings	911,607	680,805
Advances	343,715	93,235
Other companies, at cost		
Notes receivable	168,688	287,375
Shares (Note 3)	2,795,828	2,403,120
	4,219,838	3,464,535
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1, 2 and 4)	129,189,572	116,016,880
Accumulated depletion and depreciation	47,340,301	41,943,857
	81,849,271	74,073,023
OTHER ASSETS	296,540	380,605
	$ 97,198,865	$ 88,100,398

Signed on behalf of the Board:

E. A. Galvin, Director

E. C. Bovey, Director

Liabilities

	1969	1968 (Note 1)
CURRENT LIABILITIES		
Accounts and notes payable and accrued charges	$ 5,816,121	$ 4,015,370
Dividend payable	80,804	97,087
Income taxes payable by subsidiaries	2,062,175	—
Current maturities on long-term debt	3,424,655	3,245,524
	11,383,755	7,357,981
LONG-TERM DEBT (Note 5)	16,513,959	21,175,101
DEFERRED RENTAL INCOME	463,261	443,453
MINORITY INTEREST IN SUBSIDIARY COMPANIES	2,066,246	1,773,419
CONTRIBUTION IN AID OF CONSTRUCTION	98,891	91,904
DEFERRED INCOME TAXES	635,901	1,520,533

Shareholders' Equity

	1969	1968
CAPITAL STOCK (Note 6)		
Authorized		
500,000 5½% cumulative redeemable convertible voting preferred shares, par value $10 each		
50,000,000 common shares without par value		
Issued		
293,532 preferred shares	2,935,320	3,530,420
19,662,740 common shares	22,778,830	21,528,298
	25,714,150	25,058,718
PAID-IN SURPLUS	956,237	1,365,399
RETAINED EARNINGS (Note 7)	39,366,465	29,313,890
	66,036,852	55,738,007
	$ 97,198,865	$ 88,100,398

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

for the year ended December 31, 1969

	1969	1968 (Note 1)
BALANCE AT BEGINNING OF YEAR	$ 1,365,399	$ 1,365,399
Share exchange expense	409,162	—
BALANCE AT END OF YEAR	$ 956,237	$ 1,365,399

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1969

BALANCE AT BEGINNING OF YEAR, before adjustments	$ 25,045,491	$ 18,713,294
Equity in retained earnings at January 1 of subsidiaries acquired in 1969	4,268,399	3,258,651
BALANCE AT BEGINNING OF YEAR, as adjusted (Note 1)	29,313,890	21,971,945
Net earnings	8,238,191	8,196,027
Excess of proceeds over book value on disposal of partial interest in Prairie Oil Royalties Company, Ltd.	2,316,560	—
	39,868,641	30,167,972
Dividends — preferred shares of the company	174,497	204,241
— common shares of a subsidiary	327,679	649,841
	502,176	854,082
BALANCE AT END OF YEAR	$ 39,366,465	$ 29,313,890

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1969

	1969	1968 (Note 1)
FUNDS DERIVED FROM		
Operations		
Net earnings	$ 8,238,191	$ 8,196,027
Non-cash items	6,275,039	6,182,811
	14,513,230	14,378,838
Sale of share investment in subsidiary	2,448,262	28,224
Sale of other share investments	741,719	127,099
Other asset sales	761,605	671,351
Issuance of common shares — company	384,200	973,000
— subsidiary	271,232	101,086
Other sources	92,976	3,403
	19,213,224	16,283,001
FUNDS APPLIED TO		
Property, plant and equipment	16,244,750	10,500,047
Long-term debt reduction — net	4,661,142	1,269,031
Dividends — company	174,497	204,241
— subsidiary	327,679	649,841
Investment in affiliated and other companies	770,787	43,026
Share exchange expense	409,162	—
	22,588,017	12,666,186
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,374,793)	$ 3,616,815

NOTES TO FINANCIAL STATEMENTS
as at December 31, 1969

Note 1 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 1969 include the accounts of Canadian Industrial Gas & Oil Ltd. and all of its subsidiaries. All subsidiaries are wholly-owned with the exception of Prairie Oil Royalties Company, Ltd., Parys Mountain Mines Limited and Trans-Prairie Pipelines, Ltd., in which the Company has a 74%, 69% and 95% interest respectively. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition, where it was considered to be related to specific assets, has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets. Such excess has been written off where it was considered not to be related to specific assets.

During 1969 Ranvik Oils Limited, Manitou Exploration Company Limited and Trans-Prairie Pipelines, Ltd. became subsidiaries as a result of share exchange offers made by the Company. The acquisitions of these subsidiaries have been accounted for on a pooling of interests basis and accordingly their operations for the full year have been included in the consolidated statement of earnings. The 1968 figures shown herein for comparative purposes have been restated from those previously reported to include the accounts of these subsidiaries adjusted, where applicable, to conform with accounting practices followed by the Company.

Note 2 — ACCOUNTING POLICIES

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs, (except costs of short-term sub-leases) on a composite unit of production method based on total estimated reserves. During 1969, depletion of $2.1 million of a subsidiary's cost of short-term sub-leases was provided in relation to revenue of a similar amount received therefrom.

Depreciation of pipelines, plants and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Note 3 — SHARES IN OTHER COMPANIES

Investment in shares of other companies at December 31, 1969 includes 333,531 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of $2,009,117 with an approximate market value of $3.3 million. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized on sale.

Note 4 — PROPERTY, PLANT AND EQUIPMENT

	1969	1968 (Note 1)
Oil and gas properties	$ 74,398,321	$ 65,283,103
Oil and gas production equipment	12,044,107	10,078,359
Pipelines and processing plants	32,110,708	31,251,946
Propane marketing equipment	10,636,436	9,403,472
	129,189,572	116,016,880
Less		
Accumulated depletion	22,088,583	19,270,130
Accumulated depreciation	25,251,718	22,673,727
	47,340,301	41,943,857
	$ 81,849,271	$ 74,073,023

Note 5 — LONG-TERM DEBT

	1969	1968 (Note 1)
Canadian Industrial Gas & Oil Ltd.		
Bank loans secured by certain producing properties repayable in monthly instalments of $166,000 with interest at prime bank rates for such loans	$ 4,250,000	$ 5,700,000
5⅞% First Mortgage Sinking Fund Bonds, due February 1, 1983 ($10,025,000 (U.S.)) subject to semi-annual sinking fund payments of $325,000 (U.S.)	10,795,121	11,495,055
Other	283,993	330,570

	1969	1968 (Note 1)
Trans-Prairie Pipelines, Ltd. and Subsidiary		
Bank loan partially secured by a general assignment of accounts receivable of a subsidiary company	1,130,000	3,000,000
First Mortgage Sinking Fund Bonds:		
6% Series "A" due June 1, 1982, subject to annual sinking fund payments of $57,000	1,759,500	1,843,000
6¼% Series "B" due January 15, 1973	47,000	117,000
6½% Series "C" due February 1, 1976, subject to annual sinking fund payments of $200,000	1,212,000	1,402,000
Sinking Fund Debentures:		
6¼% Series "A" due February 1, 1976, subject to annual sinking fund payments of $80,000	461,000	533,000
	19,938,614	24,420,625
Current maturities included in current liabilities	3,424,655	3,245,524
	$ 16,513,959	$ 21,175,101

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1970 are as follows: 1971 - $2.8 million, 1972 - $1.7 million, 1973 - $1.1 million, 1974 - $1.1 million.

Note 6 — CAPITAL STOCK

On April 8, 1969 the Company subdivided its issued and outstanding common shares on a three for one basis and increased the number of common shares the Company is authorized to issue to 50,000,000. Changes in the share capital accounts during the year, converted to reflect the three for one subdivision of common shares, were as follows:

	Preferred Shares		Common Shares	
	Number of Shares	Consideration	Number of Shares	Consideration
Balance, January 1, 1969	353,042	$3,530,420	16,485,873	$19,033,307
Issued in exchange for shares of:				
Ranvik Oils Limited	—	—	142,293	100,000
Manitou Exploration Company Limited	—	—	17,707	32,450
Trans-Prairie Pipelines, Ltd.	—	—	2,758,783	2,633,773
Issued for cash on exercise of options	—	—	115,260	384,200
Issued on conversion of preferred shares into common shares	(59,510)	(595,100)	142,824	595,100
Balance, December 31, 1969	293,532	$2,935,320	19,662,740	$22,778,830

At December 31, 1969 there were reserved 576,340 common shares of the Company's capital stock under its officers and key employees' stock option plans of which options to purchase 401,340 shares were outstanding. Options to purchase 251,340 common shares are exercisable at $3.33⅓ per share from time to time to October 26, 1973 and options to purchase 150,000 common shares are exercisable as market growth options at $9.50 per share from time to time to September 23, 1975.

NOTES (Continued)

On the exercise of a market growth option the optionee is not required to make a cash payment and receives a number of common shares which is the quotient obtained where the numerator is the excess of the market value at the date of exercise over the option price multiplied by the number of shares in respect of which the option is exercised and where the denominator is the market value per share at date of exercise. The issue price of such shares will be 1¢ per share and will be credited upon issue to common share capital and charged to earnings. The difference between the number of shares in respect of which the option is exercised and the number of shares issued under the formula will again be available for future options granted under the plan.

Preferred shares are convertible into common shares until July 1, 1973 at the rate of twelve common shares for five preferred shares, after which date the preferred shares are redeemable at par. Of the authorized preferred shares, 165,233 shares had been issued and surrendered for conversion to December 31, 1969 and are not available for re-issuance.

As at December 31, 1969, 1,280,817 common shares were reserved under option and conversion privileges referred to above.

Note 7 — DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing the Company's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at December 31, 1969 to approximately $25.7 million.

Note 8 — INCOME TAXES

For income tax purposes the companies have claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in the accounts. As a result income taxes for the year are payable only on the earnings of some of the Company's subsidiaries, while no income taxes are payable in respect of the earnings reported for the other companies. As at December 31, 1969 expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	$ 2.6 million
Undepreciated capital cost	$23.0 million

It is the policy of the companies to provide for deferred income taxes at such time as taxes otherwise payable are deferred as a result of claiming capital cost allowances in excess of depreciation recorded. This policy permits the Company to claim capital cost allowance in excess of book depreciation without providing for deferred tax in its accounts provided it has other tax deductions available to eliminate taxable income. However, management does not believe that it is appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs in excess of depletion provided in the accounts; while the view of management conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the earnings reported in the accounts. An exception to the foregoing was the recording of short-term tax deferrals resulting from sub-lease acquisitions by a subsidiary in 1968.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income tax provisions would have been $2.1 million and $2.4 million for 1969 and 1968 respectively. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $14.0 million at December 31, 1969.

Note 9 — COMMITMENT

On November 22, 1969, the Company entered into an agreement to subscribe for a share interest in Elf Oil Exploration and Production Canada Ltd. (Elf). The subscription consideration for the Elf shares is the commitment by the Company to incur over a five year period drilling and exploration expenses on mineral rights in Canada owned or controlled by Elf in an aggregate amount of $23,471,500, or $4,694,300 per annum. Each $1.15 incurred in drilling and exploration expenses is equivalent to $1.00 if paid in cash so that the total cash equivalent for the Elf shares is $20,410,000. The agreement contains provisions for the acceleration of the programmed expenditures and, under certain circumstances, for the incurring of additional expenditures.

Note 10 — REMUNERATION OF DIRECTORS AND OFFICERS

Included in selling, operating and administrative expenses in the 1969 consolidated statement of earnings is $344,289 remuneration to directors and officers.

Since 1965, proven and probable crude oil reserves grew from 33.3 million barrels to the current 46.7 million barrels, or 13% a year. Proven gas reserves at March 31, 1968 totalled 613 billion cubic feet, and sulphur reserves totalled 244,000 long tons.

PETROLEUM EXPLORATION

During the past two years exploratory and development drilling, in which the company has participated, has resulted in the completion of 25 oil wells and 30 gas wells, bringing the current ownership to approximately 270 net oil wells and 145 net gas wells in Western Canada.

In view of the relatively short life index of crude oil reserves (about 15 years at current production rates), CIGOL has endeavoured to establish a strong land position in areas of current interest and high potential. This aggressive management approach resulted in a doubling of landholdings last year as interest swung northward following the Prudhoe Bay discovery on Alaska's North Slope.

Significant among these acquisitions was the addition of 1.2 million net acres in the Arctic Islands to complement the 2.3 million acres previously farmed out to Panarctic Oils Ltd. The majority of this acreage is located on and around Melville Island, the site of Panarctic's initial drilling venture this spring. In Alaska the company purchased 220,000 acres on the North Slope, thus establishing a position in this important play.

In the North Sea, where CIGOL participated in drilling of the only oil completion in 1966, Gulf Oil (U.K.) Ltd. recently established the presence of a sizeable gas accumulation within 2 miles of a 65,000 acre CIGOL permit. The drilling of the first of two scheduled wells on this permit in 1969 is expected to begin by March.

MINERAL EXPLORATION

In 1967 CIGOL began increasing its participation in mineral exploration. Significant holdings at the present time are located in North Wales and Northern Saskatchewan. Many other areas are under investigation and the company is quick to follow leads which offer the potential of new discovery.

On the Isle of Angelsay, North Wales, mineralized zones have been encountered in at least six separate areas on a 1,060 acre permit. Continued encouraging drilling results on this lead-zinc prospect during 1968 should lead to further work in 1969.

In the Uranium City area of Northern Saskatchewan the company has acquired 1,050 claims located near silver and copper showings made by other companies. Following the recent uranium strike CIGOL filed on two permits covering 384,000 acres on the Wollaston Lake trend. This strike is expected to attract substantial exploration money in 1969 as participating companies attempt to delineate the lateral extent of mineralization.

FINANCIAL

Net income for 1968 should approach $6.4 million or $1.18 a share, a 6.3% increase over 1967. The company's ability to generate cash is reflected in a cash flow increment of 18% over the previous year to approximately $2.00 per share.

As at August 31, 1968, bank loans totalled $5.8 million and long-term debt totalled $11.8 million. Compared to this, cash flow is estimated at $11.0 million for 1968 alone. Convertible preferred shares outstanding, if converted, plus options would increase current issued capital from 5,484,011 to 6,057,028 common shares. No dividend is yet paid.

CONCLUSIONS

At a current price of $25.50 shares are trading at about 13 times the estimated 1968 cash flow and 21 times earnings. The appraised asset value as illustrated below works out to $21.30 per share. Inclusion of landholdings in this appraisal would add an additional $2 to $3 a share.

Broad exposure in areas of high potential, most significantly the company's Arctic holdings and Wollaston Lake mineral permits, add speculative appeal to a fundamentally solid company. In the Arctic Islands, acreage is ideally situated to benefit from Panarctic's drilling plans this spring.

In view of these considerations, CIGOL seems an attractive way to participate intelligently in the near-term future of the oil and gas industry in Canada and abroad.

APPRAISAL OF ASSETS

Reserves:	
Crude Oil and Condensate disc. @ 8%	$ 49.8 mill.
Natural Gas disc. @ 8%	36.4 "
Sulphur disc. @ 8%	3.0 "
Investments:	
Prairie Oil Royalties 1,520,000 shs. $11 x 60%	10.0 "
B.C. Oil Lands 333,531 shs. @ $12 x 80%	3.2 "
Other Investments and Notes Receivable	2.1 "
Fixed Assets — Pipeline, Plant, Propane Mktg. Equipment	29.3 "
Working Capital (Aug. 31, 1968)	0.5 "
Less Bank Loans, Long Term Debt and Preferred (Aug. 31, 1968)	(17.7) "
	$116.6 mill.

Per common share = $\frac{\$116.6 \text{ million}}{5{,}484.011 \text{ shares}}$ = $21.30

January 15, 1969 N. M. Sheasby

Canadian Industrial Gas & Oil Ltd.

AR29

Notice

of

Annual General Meeting of Shareholders

April 8th, 1969

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of Canadian Industrial Gas & Oil Ltd. (hereinafter called the "Company") will be held in the Board Room at the Company's offices, 12th Floor, 640 Eighth Avenue S.W., in the City of Calgary in the Province of Alberta, Canada, on Tuesday, the 8th day of April, 1969, at 9:30 o'clock in the forenoon, Mountain Standard Time, for the following purposes:

1. To receive, consider and, if thought fit, approve the Report of the Directors, the Consolidated Balance Sheet as at December 31, 1968, Consolidated Statements of Income, Paid-in Surplus, Retained Earnings, and Source and Application of Funds for the year ended December 31, 1968 and the Auditors' Report thereon;
2. To elect ten directors for the ensuing year and until their successors have been elected or appointed;
3. To appoint auditors for the ensuing year and, if thought fit, to authorize the Board of Directors of the Company to determine the amount of their remuneration;
4. To consider and, if thought fit, pass with or without amendment, the following Special Resolution:

RESOLVED AS A SPECIAL RESOLUTION THAT:

A. The share capital of the Company consisting of $5,000,000 divided into 500,000 Preferred shares with a nominal or par value of $10 each and 6,000,000 Common shares without nominal or par value which may be sold for a maximum price or consideration of $50,000,000, be reorganized by subdividing the 5,516,687* issued and paid-up common shares without nominal or par value into 16,550,061* issued and paid-up Common shares without nominal or par value, and by subdividing the 483,313* unissued Common shares without nominal or par value into 1,449,939* unissued Common shares without nominal or par value, each issued and unissued Common share without nominal or par value being subdivided into three (3) Common shares without nominal or par value, and by increasing the share capital of the Company by the creation of 32,000,000 new Common shares without nominal or par value ranking on a parity in all respects with the 18,000,000 Common shares without nominal or par value resulting from the subdivisions aforesaid so that the share capital of the Company shall consist of:

(i) $5,000,000 divided into 500,000 Preferred shares with a nominal or par value of $10 each of which 349,547* are issued and outstanding as fully paid and non-assessable; and

(ii) 50,000,000 Common shares without nominal or par value which may be sold for a maximum price or consideration of $50,000,000 of which 16,550,061* are issued and outstanding as fully paid and non-assessable.

B. Clause 10 (b) of the Amalgamation Agreement dated February 10, 1965 pursuant to which the Company was created effective March 8, 1965 (the equivalent in law to the Memorandum of Association of the Company) be amended to read as follows:

"10 (b) The Amalgamated Company shall also be authorized to issue 50,000,000 Common shares without nominal or par value"; and

C. The proper officers of the Company be authorized to apply to the Supreme Court of Alberta for confirmation hereof.

Notes:

* *The figures for issued and unissued Common shares set forth in the foregoing Special Resolution are the actual figures as at March 10, 1969. In the event additional Common shares are issued after March 10, 1969 and prior to the close of business on the day preceding the Meeting by virtue of the conversion of Preferred shares or the exercise of employee share options, the Resolution presented to the Meeting will be amended to reflect (i) the applicable increase in the number of issued Common shares to be subdivided and the number of issued Common shares resulting therefrom on the three for one basis and (ii) the corresponding decrease in the number of unissued Common shares to be subdivided and the number of unissued Common shares resulting therefrom. (For example, if an additional 2,000 Common shares are so issued, the Resolution presented to the Meeting will be amended to increase the figure of issued Common shares by 2,000; to increase the figure for issued Common shares resulting from the subdivision by 6,000; to decrease the figure for unissued Common shares by 2,000 and to decrease the figure of unissued Common shares resulting from the subdivision by 6,000.)*

The figure for issued Preferred shares of the Company set forth in the foregoing Special Resolution is the actual figure as at March 10, 1969. In the event any outstanding Preferred shares are converted into Common shares after March 10, 1969 and prior to the close of business on the day preceding the Meeting, the Resolution presented to the Meeting will be amended to reflect the applicable decrease in the number of Preferred shares outstanding.

These notes form no part of the Special Resolution aforesaid.

5. To transact such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 10, 1969 as the record date for the determination of shareholders entitled to notice of, and to vote at, the said Meeting or any adjournment or adjournments thereof. The transfer books will not be closed. Shareholders who do not expect to attend the Meeting in person are requested to complete, sign and detach the Instrument of Proxy at page 7 hereof and forward it in the stamped and addressed envelope provided, to the Secretary of the Company, c/o National Trust Company, Limited, 330 Eighth Avenue S.W., Calgary 2, Alberta, Canada, to reach that address no later than twenty-four (24) hours before the time fixed for the commencement of the Meeting.

DATED at the City of Calgary, in the Province of Alberta, this 15th day of March, 1969.

BY ORDER OF THE BOARD OF DIRECTORS,

L. A. SILLS,
Secretary.

Canadian Industrial Gas & Oil Ltd.

Information Circular

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation of proxies by the Management of Canadian Industrial Gas & Oil Ltd. (hereinafter called the "Company") to be used at the Annual General Meeting of the Company to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting. The solicitation will be by mail, but proxies may also be solicited personally by Directors and regular employees of the Company. All expenses in connection with this solicitation by the Management to the registered shareholders will be borne by the Company.

Appointment, Revocation and Delivery of Proxies

The persons named in the enclosed Instrument of Proxy are Directors of the Company. **A shareholder desiring to appoint some other person to represent him at the Meeting may do so** either by inserting such person's name in the blank space provided in the Instrument of Proxy or by completing another proper form of proxy and, in either case, depositing it with the Secretary of the Company within the time hereinafter specified for receipt of instruments of proxy. A person appointed as a proxy need not be a shareholder of the Company.

A shareholder who has given an instrument of proxy may revoke it, as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by it, by signing another instrument of proxy bearing a later date and depositing it with the Secretary of the Company within the time hereinafter specified for receipt of instruments of proxy, or by signing a written notice of revocation and depositing it with the Secretary of the Company at 640 Eighth Avenue S.W., Calgary 2, Alberta, on or before the day preceding the Meeting or delivering it to the Chairman at the Meeting.

An instrument of proxy to be voted at the Meeting must be received by the Secretary of the Company, c/o National Trust Company, Limited, 330 Eighth Avenue S.W., Calgary 2, Alberta, not less than twenty-four (24) hours before the time fixed for the commencement of the Meeting; otherwise it shall be invalid.

Exercise of Discretion by Proxies

The persons named in the enclosed Instrument of Proxy will, if it is duly completed and timely deposited, vote the shares in respect of which they are appointed (a) upon the motion for approval of the Directors' Report, Financial Statements and Auditors' Report thereon in accordance with the direction of the shareholders appointing them **(or, in the absence of such direction, for such approval);** (b) upon the motion for the passing of the Special Resolution (with the number of issued and unissued Common shares and issued Preferred shares adjusted to reflect changes, if any, from the figures shown in the Notice occurring subsequent to March 10, 1969 and prior to the close of business on the day preceding the Meeting) in accordance with the direction of the shareholders appointing them **(or, in the absence of such direction, for such passing);** and (c) for the election of directors and the appointment of auditors, as stated under those headings in this circular. The enclosed Instrument of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the Meeting. At the time of printing this circular, the Management of the Company knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.

Voting Shares

Pursuant to the Articles of Association of the Company the Board of Directors has fixed the close of business on March 10, 1969 as the record date for the Meeting and accordingly the only persons entitled to attend and vote at the Meeting or to be represented thereat by proxy will be registered shareholders of record at the close of business on the said date. The transfer books will not be closed. Each shareholder of record present in person is entitled to one vote on a show of hands and, on a poll, each shareholder of record present in person or represented by proxy is entitled to one vote for each Common share and one vote for each 5½% Cumulative Redeemable Convertible Preferred share held at the record date.

At the record date there were outstanding 5,516,687 Common shares and 349,547 5½% Cumulative Redeemable Convertible Preferred shares, all of which are entitled to be voted at the Meeting.

Principal Shareholders

At the record date the only person who, to the knowledge of the Directors and Senior Officers of the Company, beneficially owned, directly or indirectly, equity shares carrying more than 10% of the voting rights attached to all shares of the Company (both Common and Preferred shares) was Northern and Central Gas Corporation Limited, 4600 Toronto-Dominion Centre, Toronto 1, Ontario, which owned 4,370,843 Common shares, representing 75% of the total of the Common and Preferred shares outstanding. The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the above named corporation.

Election of Directors

The Articles of Association of the Company provide that all of the directors shall retire from office at each Annual General Meeting, and shall be eligible for re-election. A director need not be a shareholder of the Company. There are ten (10) directors of the Company all of whom retire and are eligible for re-election.

The persons named in the enclosed Instrument of Proxy have stated they will vote for the election of the nominees whose names are set forth below, all of whom except Mr. E. G. Battle are now members of the Board of Directors. The Management knows of no reason why any of the nominees will be unable to serve as a director, but if notice is received that a nominee will not serve for any reason, the persons named in the enclosed Instrument of Proxy reserve, and are granted, the right to vote for another nominee in their discretion. Each director elected will hold office until the next Annual General Meeting and until his successor is duly elected.

In the following table and the notes thereto are stated the names of all the nominees for election as directors, all other positions and offices with the Company now held by them (if any), their present occupations or employments, the date on which each became a director of the Company and the number of shares of the Company beneficially owned directly or indirectly by each as of March 1, 1969:

Name and Present Occupation	*Served as a Director since*	*Shares beneficially owned at March 1, 1969*	
		Common	*5½% Preferred*
ANDREAE, Herbert C., Toronto Ontario. Director and Vice Chairman of International Trust Company, Toronto, Ontario. Director and President of Andreae Equity Investment Fund Limited, Toronto, Ontario.	March 8, 1965	Nil	Nil
BATTLE, Edward G., Calgary, Alberta. Executive Vice President of the Company since August 1966. Prior thereto a Vice President of the Company and of several of its predecessors.	—	2,600	Nil
BOVEY, Edmund C., Toronto, Ontario. Chairman of the Executive Committee of the Company. Director, President, and Chief Executive Officer of Northern and Central Gas Corporation Limited, Toronto, Ontario.	August 18, 1966	Nil	Nil
CLARK, C. Spencer, Seattle, Washington, U.S.A. Director and Chairman of the Board of Northern and Central Gas Corporation Limited, Toronto, Ontario. Executive of Cascade Natural Gas Company, Seattle, Washington.	August 18, 1966	Nil	Nil
CRADDOCK, Robert B., Montreal, Quebec. Director, Chairman of the Board and Chief Executive Officer of Quebec Natural Gas Corporation, Montreal, Quebec. Director and Senior Vice President (Quebec) of Northern and Central Gas Corporation Limited, Toronto, Ontario.	November 29, 1966	Nil	Nil
CROOKSTON, J. Ian, Toronto, Ontario. President of Nesbitt, Thomson and Company Limited, Investment Dealers, Toronto, Ontario.	March 8, 1965	Nil	Nil
GALVIN, Edward A., Calgary, Alberta. President and Chief Executive Officer, and Member of the Executive Committee of the Company. Director and Executive Vice President, Production, of Northern and Central Gas Corporation Limited, Toronto, Ontario.	March 8, 1965	704	Nil

Name and Present Occupation	*Served as a Director since*	*Shares beneficially owned at March 1, 1969* Common	5½% Preferred
LOVE, Richey B., Calgary, Alberta. Member of the Executive Committee of the Company. Partner with Macleod, Dixon, Burns and Company, Barristers and Solicitors, Calgary, Alberta.	March 8, 1965	500	Nil
MACKWELL, Arthur, Glen Rock, New Jersey, U.S.A. Retail Consultant to the President, National Bellas Hess Corporation, a mail order merchandising company, Kansas City, Missouri.	March 8, 1965	Nil	Nil
YARNELL, John R., Montreal, Quebec. Vice President of Consolidated-Bathurst Limited, Pulp and Paper Company, Montreal, Quebec.	March 8, 1965	Nil	Nil

Note: The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors individually.

Remuneration of Management (Year Ended December 31, 1968)

	The Company and consolidated subsidiaries	*Unconsolidated subsidiaries*
1. Aggregate remuneration paid to Directors and Senior Officers	$220,860	Nil
2. Aggregate cost to the Company of all pension benefits for Directors and Senior Officers	$ 10,441	Nil
3. Aggregate cost to the Company of all benefits to Senior Officers under the Employee Savings Plan	$ 5,857	Nil

Stock Options (Year Ended December 31, 1968)

Exercised by Senior Officers

During the year 1968 (in the period from June 12 to December 31) Senior Officers, who are also employees, exercised options for a total of 70,800 Common shares of the Company, pursuant to the terms of, and at the price of $10.00 per share fixed by, their option agreements. The following is a schedule of the number of shares exercised by months and the market price:

Month of Purchase 1968	*No. of Shares Purchased*	*Market Price on Toronto Stock Exchange* High	Low
June	4,800	$24⅛	$16
July	1,800	18⅝	15¾
August	400	19¼	16¾
September	9,600	20	16
October	47,900	23¼	19¾
November	3,900	23⅝	21⅛
December	2,400	25	20½
	70,800		

Indebtedness

In 1966 the Company made an interest free loan of $93,567 to Mr. Edward A. Galvin, a Director and Senior Officer of the Company, for the purpose of building a house in Calgary, Alberta. The loan was repayable in annual instalments to December, 1977. The balance of the loan on December 31, 1968 was $87,954, and the largest aggregate amount of indebtedness outstanding during 1968 was $90,760. The entire loan was repaid to the Company on February 18, 1969.

Appointment of Auditors

As set forth in the Notice, action will be taken at the Meeting with respect to the appointment of auditors. The persons named in the enclosed Instrument of Proxy will vote the shares in respect of which they are appointed proxy in favour of the appointment of the retiring auditors, Riddell, Stead & Co. (who

changed their name from Riddell, Stead, Graham & Hutchison), which firm was first appointed at the Annual General Meeting of the Company held on April 4, 1967, as auditors. The Management of the Company knows of no relationship between Riddell, Stead & Co., or any of its associates and the Company, or any of its subsidiaries or affiliates, except as auditors.

Proposed Reorganization of Share Capital

The Special Resolution reorganizing the share capital of the Company by subdividing each of the issued and unissued Common shares without nominal or par value into three (3) Common shares without nominal or par value, and by increasing the share capital by the creation of 32,000,000 new Common shares without nominal or par value, ranking on a parity in all respects with the Common shares resulting from the subdivision, as set forth in the Notice, will be put before the Meeting. To be passed the Special Resolution requires the affirmative vote of (i) not less than three-forths of such members as, being entitled to do so, vote in person at the Meeting, or (ii) not less than three-fourths of the votes cast on a poll.

The subdivision of the issued and paid-up Common shares without nominal or par value on a three for one basis will result in tripling the number of issued and paid-up Common shares without nominal or par value outstanding. In the opinion of Management this will broaden interest in the Company's shares. As at March 10, 1969 the issued Common shares without nominal or par value of the Company totalled 5,516,687 which upon the subdivision becoming effective would become 16,550,061 in number. Any Common shares without nominal or par value issued after March 10, 1969 and prior to the close of business on the day preceding the day of the Meeting pursuant to the conversion of Preferred shares or the exercise of employee share options, will be subdivided on the three for one basis at the same time as the Common shares outstanding on March 10, 1969 are subdivided. The subdivision of Common shares does not adversely affect the conversion rights of the Preferred shares as the conditions attached to the Preferred shares provide that, upon a conversion of Preferred shares subsequent to a subdivision of the Common shares into a greater number of Common shares, the holder of the Preferred shares converted is entitled to such additional number of Common shares as would have resulted from such subdivision if the right of conversion had been exercised prior to the date of such subdivision.

As mentioned in the Notice of Meeting, the actual numbers of issued Common shares and unissued Common shares to be subdivided may change prior to the Meeting from the numbers set forth in the Notice by virtue of conversions of Preferred shares or the exercise of employee share options, and any such changes occurring up to the close of business on the day preceding the Meeting will be reflected in the Resolution presented to the Meeting.

While the Company in the past has considered various companies with a view to the acquisition of their shares or assets and intends to continue such practice, as of the date of this circular, the Management of the Company has no specific plans for the issuance of all or any portion of the Common shares to be created, and as of the date of this circular there are no outstanding commitments or options relating to all or any portion of the Common shares to be created, and the Company is not conducting any negotiations looking toward the issuance of any of the Common shares to be created. Consequently, it is not possible to describe the transaction or transactions in which the Common shares to be created will be issued. The creation of the 32,000,000 Common shares is proposed in order to provide greater flexibility to the Company in the event it should in the future become desirable in the opinion of the Board of Directors to issue additional Common shares.

The 50,000,000 authorized Common shares of the Company existing upon the Special Resolution becoming effective shall be without nominal or par value, which Common shares may be issued for the sum of $50,000,000 in the aggregate. The Directors of the Company have the power, on paying applicable registration fees to the Registrar of Companies for the Province of Alberta, to increase the said maximum sum. The issue from time to time of Common shares to be created will be at the discretion of the Board of Directors of the Company and no further authorization for the issuance of such Common shares by a vote of the shareholders need be solicited prior to any issuance.

L. A. SILLS,
Secretary.

Calgary, Alberta.
March 15, 1969.